

ASX Announcement



12 October 2021

DDH1 and Swick to create world-leading mineral driller

DDH1 Limited (**ASX: DDH**) (**DDH1** or the **Company**) and Swick Mining Services (**ASX: SWK**) (**Swick**) are pleased to announce that they have agreed to in-principle terms, made under a conditional, non-binding indicative proposal (**Indicative Proposal**), to merge their respective drilling businesses in an all-scrip transaction by way of a Scheme of Arrangement (**Proposed Transaction**). The Proposed Transaction does not impact Swick's announced plan to demerge Oreplore.

Under the terms of the Proposed Transaction, Swick shareholders will receive shares in DDH1 and become part of a world-leading mineral driller with a strong balance of surface and underground drilling exposures, a combined fleet of more than 170 high-quality rigs, pro-forma annual revenues of approximately \$445 million and a combined pro-forma FY21 EBITDA of \$103 million¹.

Proposed Transaction key terms

- Under a Scheme of Arrangement Swick shareholders are to receive 0.2970 new DDH1 shares for each Swick share held
- Swick's drilling business is valued at 35 cents per Swick share, reflects an enterprise value of \$115 million² (3.9x pro forma EBITDA¹)
- Upon completion of the Proposed Transaction, Swick shareholders will own approximately 19.7% of the combined business
- Provides DDH1 and Swick shareholders with the opportunity for greater liquidity through DDH1 shares, including over time, potential inclusion in the S&P-ASX300 index
- DDH1 expects the Proposed Transaction to realise meaningful synergies over time with both sets of shareholders able to benefit due to the all-scrip consideration structure
- To illustrate the earnings impact given DDH1 does not provide forecasts, the Proposed Transaction is expected to be approximately 10% - 15% earnings accretive³ based on DDH1 and Swick's FY21 performance and conservative synergies being achieved

¹ Based on FY21 underlying revenue and EBITDA for DDH1 and Swick's Drilling business (excluding Oreplore and RC business that was sold in December 2020).

² Equity offer price adjusts for \$15.7 million of expected net debt that would be assumed by the transaction including the previously announced \$12 million of Oreplore seed funding and Oreplore costs through to the demerger date.

³ Assumes Swick Drilling EBIT for FY21 of \$16.6 million, which adjusts the FY21 statutory result to exclude Oreplore and the RC business contributions and adjusting for the D&A policy that Swick announced at its FY21 result that will be applied from FY22. Earnings accretion range conservatively reflects \$2 million to \$5 million p.a. of synergies (pre cost to implement), assuming synergies achieved in a single year, in practice synergies will be achieved over a period of time that remains subject to ongoing review.



Commenting on the Proposed Transaction, DDH1 Managing Director & CEO Sy Van Dyk said:

“For DDH1, partnering with the leading underground diamond driller in Australia is a natural evolution to our specialised surface drilling operations and in line with the disciplined growth strategy we unveiled as part of our ASX listing in March 2021.

“We have enormous respect for what Kent Swick and his team at Swick have delivered to their customers over the years and are very excited about their potential growth as they deploy their engineering innovations and services which demonstrate a deep understanding of their customer requirements.

“Further, with a combined drill fleet of more than 170 drill rigs in FY22, which will be Australia’s largest fleet, we expect to secure meaningful synergies over time.”

Strategic rationale

When DDH1 listed on the ASX in March 2021, the Company disclosed a multi-faceted growth strategy that included pursuing new growth opportunities, driving higher rig utilisation and rate increases, expanding its industry leading fleet and pursuing acquisitions that can deliver a strategic advantage and enhanced value for shareholders. The Proposed Transaction with Swick is compelling for DDH1 and its shareholders.

DDH1 is also uniquely placed to work cooperatively with Swick as they deploy their emerging range of drilling technologies. DDH1 offers highly complementary exploration and mining drilling expertise and a track record of working with a range of exploration and mining companies.

The combination of the two WA-based businesses will create a global scale mineral drilling company with a balance of surface (~60%) and underground (~40%) drilling from a combined fleet of more than 170 rigs generating approximately \$445 million per annum in revenues.

Consistent with DDH1’s current practice for its own three business brands – DDH1 Drilling, Ranger Drilling, Strike Drilling – the Company expects to maintain the Swick drilling business as a standalone division to ensure a continuation of the successful branding and customer service focus.

Conditions

The Proposed Transaction is conditional on, among other things, negotiation of a binding Scheme Implementation Agreement between the parties, which is expected to occur shortly. Both parties have completed reciprocal confirmatory due diligence and remain in exclusive discussions.

Any transaction is subject to various matters, including:

- Finalising and executing of a Scheme Implementation Agreement, for approval by both Boards;
- Securing regulatory approvals for the Proposed Transaction, Swick shareholder approval, Court approval and meeting other customary conditions; and
- Foreign Investment Review Board (FIRB) approval

There is no certainty that the Proposed Transaction will lead to an agreed transaction.

Subject to entry into the Scheme Implementation Agreement, the Board of Swick intends to unanimously recommend the Proposed Transaction to shareholders (subject to no superior proposal and the independent expert recommending the Proposed Transaction).

The transaction is expected to occur following completion of the Orexplore demerger by Swick.

Further information on the expected benefits of the combination of DDH1 and Swick will be provided to shareholders in due course.

Value for Swick shareholders

The Proposed Transaction is highly compelling to Swick shareholders on both the basis of the standalone drilling business as well as valuing the cash being injected into Orexplora during the demerger process.

Premium %	Drilling Equity Value	Drilling Equity Value + Cash Value Contributed to Orexplora
Last close	32.2%	48.1%
5 day VWAP	27.8%	43.2%
30 day VWAP	38.5%	55.3%
60 day VWAP	43.8%	61.2%
90 day VWAP	50.6%	68.8%

Based on share price data on 6 October 2021, the day prior to the Indicative Proposal.

Funding of the Proposed Transaction

DDH1 expects to issue approximately 84.2 million new DDH1 shares upon completion. Swick shareholders will own approximately 19.7% of the combined business, and existing DDH1 shareholders will own approximately 80.3%.

DDH1 has existing credit facilities totalling \$50 million and net cash at 30 June 2021 of \$9.5 million. The unused credit facilities will fund the \$15.7 million of expected net debt and transaction costs.

Dividend policy

Following completion of the Proposed Transaction, DDH1 expects to retain its current dividend policy, being that subject to availability of retained earnings, it intends to pay at least 30% to 50% of its net profit after tax (excluding individual material items) as dividends franked, to the maximum extent practical. Based on the expected close date of the Proposed Transaction, Swick shareholders will likely be eligible for the DDH1 interim FY22 dividend.

Next steps

DDH1 and Swick are working towards entering into a Scheme Implementation Agreement. DDH1 will update shareholders as and when appropriate.

Advisors

DDH1 is being advised by MA Moelis Australia and Clayton Utz.

This ASX announcement has been authorised for release by the Board of DDH1 Limited

For further information, please contact:

DDH1 Limited:

Sy van Dyk
Managing Director & CEO
DDH1 Limited
(08) 9435 1700
investor.relations@ddh1.com.au

Ben MacKinnon
CFO
DDH1 Limited
(08) 9435 1700
investor.relations@ddh1.com.au

Media Advisers:

Peter Klinger
0411 251 540
pklinger@canningspurple.com.au

Peter Kermode
0411 209 459
pkermode@canningspurple.com.au

About DDH1 Limited

DDH1 Limited, which is listed on Australian Securities Exchange with the ASX ticker DDH, is a profitable Australian drilling company servicing the mining and exploration sectors. Based in Perth, Western Australia, and led by an experienced and respected management team, DDH1 is an industry leader in deep hole directional drilling.

DDH1 employs around 1,000 people and operates a fleet of 99 modern and highly specified drill rigs across its three brands – DDH1 Drilling, Ranger Drilling and Strike Drilling – to offer clients the full suite of specialised drilling services. Included in the fleet line-up are dual-purpose rigs able to perform air core and reverse circulation (RC) – a precursor for drilling deeper – and diamond core drilling to enable clients to secure high-quality mineral samples.

Central to DDH1's strategic approach is the pursuit of long-term relationships with clients, built on quality drilling services and a deep understanding of their business needs.

For more information, please visit www.ddh1.com.au